



Review of the Fiscal Year 2014 Proposed Budget

Office of the Independent Budget Analyst
May 6, 2013

Balancing the FY 2014 Budget



FY 2014 - 2018 General Fund Five-Year Outlook (\$ in millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Original (November 2012)	\$ 4.9	\$ 6.1	\$ 32.2	\$ 62.0	\$ 94.2
Revised (January 2013)	(38.4)	(38.3)	(11.1)	20.8	55.9
Mayor's Proposed Budget (April 2013)	0.0	(26.7)	(3.5)	23.5	50.5

Balancing the FY 2014 Budget



Two major issues contributed to the FY 2014 deficit:

- Impacts of Proposition B and investment experience losses on Pension ARC - **\$29 m**
- Impacts of redevelopment dissolution requiring General Fund / TOT Fund to pay debt service for Petco Park and Convention Center - **\$14.3 m**

Balancing the FY 2014 Budget



- Estimated \$20.0 m Ongoing Resources – 45%
 - Small increase to Major Revenues
 - Fund balances (3 year spread)
 - Redevelopment Property Tax Trust Fund (RPTTF)
- Estimated \$24.0 m One-time Resources – 55%
 - SDGE Settlement Funds
 - FY 2013 Surplus
- These resources eliminated \$38.4 m deficit and provided a \$5.5 m surplus (used for new expenditures)

Balancing the FY 2014 Budget



- No major new ongoing revenue
- Street Damage fee is increased to achieve greater cost recovery for damages due to trenching, no other user fee increases
- Savings from five awarded managed competitions continue
- No new managed competition savings
- No new efficiencies/reforms that produce new savings

Balancing the FY 2014 Budget



- Reliance on one-time solutions is a concern
- City has been diligent about avoiding this practice since 2007 or matching them to one-time expenditures
- Reliance on one-time solutions is contrary to City's "Structural Budget Principles"
- Our report identifies a small amount of new resources that could mitigate some one-times, but nowhere near \$23.7 m

Balancing the FY 2014 Budget



- Mayor notes this is a “transitional” budget
- Mayor has committed to conducting efficiency studies in FY 2014 to identify savings for FY 2015
- Comprehensive Park and Recreation user fee study is underway, results available for FY 2015
- Mayor could move forward with some new managed competitions in FY 2014 and potentially generate savings in FY 2015 or FY 2016

Balancing the FY 2014 Budget



- \$15 m of new expenditures funded through reductions:
 - Reduced debt service payments by delaying deferred capital bonds
 - Reduced level of funding for deferred capital maintenance and repair (M&R)
 - Elimination of 13 positions in City Attorney's Office
 - One-time reduction to Storm Water funding (replaced with anticipated bond funding)
 - Reduction in annual contribution to the Public Liability Fund due to lower outstanding liabilities

Balancing the FY 2014 Budget



- Proposed new programs
 - Penny for the Arts - **\$1.6 m**
 - Civic and Urban Initiatives - **\$1.0 m**
 - Supplemental COLA program - **\$1.4m**
- Five-year costs for these new programs are estimated at \$25 m
- Need to be carefully evaluated against other high priorities such as infrastructure and public safety

Balancing the FY 2014 Budget



- Other Important Additions

- Increase 4 Police academies from 30 to 34 recruits
- New Police equipment
- 12 FTE new hourly seasonal lifeguards
- Funding for community plan updates
- Maintenance and Repair positions for Facilities
- Balboa Park Celebration
- Balboa Traffic Management Plan
- Extension of the Single Adult Emergency Winter Shelter to year-round

Priorities Resolution in Comparison to FY 2014 Proposed Budget



COMPARISON OF CITY COUNCIL FY 2014 BUDGET PRIORITIES RESOLUTION TO MAYOR'S PROPOSED BUDGET

BUDGET PRIORITY		IN FY 2014 BUDGET	COMMENTS
<i>Enhancing Public Safety</i>			
1	Restoration of Civilian Positions	-	
2	Increased Number of Police Academies / Recruits in Academy	X	4 academies, with 34 recruits funded
3	Increased Number of Lifeguard Recruits	P	Increased hourly staffing in summer
4	Increased Number of Fire Academy Recruits / Add a Second Academy	-	One academy budgeted in 2014
5	Funding for Lifeguard Vehicles & Increased Training	P	Rescue vehicle funded, no new training funds
6	Lifeguard Wellness Program	X	Funded in FY 2013
<i>Infrastructure & Deferred Capital</i>			
7	Updated Asset Condition Assessment	-	\$1.0 million requested by department for Facilities Condition Assessment; \$264,000 requested for Park Assets; Sidewalk assessment estimated at \$1.0 million
8	Efficiency Consultant for Infrastructure Delivery; Other Studies	-	
9	Deferred Capital Borrowing On Schedule	-	2014 \$80 million bond delayed to January 2014 / M&R funding reduced by \$1.0 million over Plan

- Not included in the budget

X Included in budget, full funding

P Included in budget/ partial funding

Priorities Resolution in Comparison to FY 2014 Proposed Budget



COMPARISON OF CITY COUNCIL FY 2014 BUDGET PRIORITIES RESOLUTION TO MAYOR'S PROPOSED BUDGET

BUDGET PRIORITY		IN FY 2014 BUDGET	COMMENTS
<i>Park & Recreation / Library Hours / Penny for the Arts</i>			
10	Maintaining Library Branch Hours	X	
11	Maintaining Park & Recreation Center Hours	X	
12	Increasing Library Branch Hours	-	
13	Increasing Park & Recreation Center Hours	-	
14	Funding for the Penny for the Arts Blueprint	P	\$1.6 million funded of \$3.7 million request
<i>Increased Funding for Neighborhood Services</i>			
15	Community Plan Update Funding	X	Additional funding of \$0.8 million included
16	Twice Per Week Refuse Pick-Up in Mission Beach from Memorial Day to Labor Day	-	
17	Neighborhood Code Compliance Improvements	-	Property Value Protection Ordinance funding of \$0.1 million included
18	Establishment of an Urban Forestry Program	-	Additional \$0.5 million included for palm tree trimming

- Not included in the budget

X Included in budget, full funding

P Included in budget/ partial funding

Priorities Resolution in Comparison to FY 2014 Proposed Budget



COMPARISON OF CITY COUNCIL FY 2014 BUDGET PRIORITIES RESOLUTION TO MAYOR'S PROPOSED BUDGET

BUDGET PRIORITY		IN FY 2014 BUDGET	COMMENTS
<i>Reforms, Efficiencies, Partnerships, and Adherence to Fiscal Policies</i>			
19	Ongoing Expenditures Funded By Ongoing Revenue	P	
20	Adherence to City Reserve Policy / Maintenance of High Level of Reserves	X	General Fund exceeds goal, others are anticipated to be on target
21	Continued Growth of Marketing Partnerships	-	Reduction of revenue of \$150,000 in FY 2014
22	Purchasing & Contracting Department Staffing / Resources / Efficiency	-	EOC transferred back to P&C, additional position added
23	Enhanced City Website Functionality for Business and Citizens	-	
24	Alternative Work Schedules	-	
25	Continuation of Managed Competition	-	No new managed competition savings, savings from awarded processes continue
26	Labor Relations Officer to Negotiate Efficiencies Identified by Employees	-	

- Not included in the budget
 X Included in budget, full funding
 P Included in budget/ partial funding

Infrastructure Funding in FY 2014 Proposed Budget



- The Mayor's Proposed Budget includes funding for debt service of \$2 million for the \$35 million CIP bond issuance expected to be completed in FY 2013
 - \$20.5 million of this bond issuance will address deferred capital
- The Proposed Budget also includes about \$1.2 million for much needed Facilities M&R staff and expenses:
 - 9.00 FTEs and \$873,000 in related expenses
 - a \$300,000 reduction in vacancy savings so that 8.00 vacant positions can be filled

Infrastructure Funding in FY 2014 Proposed Budget



- No funding is included for critical condition assessments for facilities/buildings (\$1 million), park assets (\$264,000), and sidewalks (\$1 million)
- Delay of next \$80 million deferred capital bond issuance from spring/early summer of 2013 to January 2014 and delay of all subsequent planned issuances achieves annual debt service savings of \$5.6 million over 5 years, but provides \$85.5 million less in bond funding than Enhanced Option B
- Maintenance & Repair (M&R) (formerly Operations & Maintenance) funding reduced by \$1.0 million from \$50 million to \$49 million than was scheduled in Enhanced Option B. This is \$5.1 million less than FY 2013 funding

Potential Revisions to Stay on Track with Enhanced Option B



- Provide One-time Funding for Condition Assessments (\$2.3 million) – Facilities (\$1 million), Park System (\$264,000), and Sidewalks (\$1 million)
- Increase FY 2014 M&R funding related to deferred capital from \$49.0 million to FY 2013 Funding level of \$54.1 million – (\$5.1 million)
- Consider the Catch-Up Option to come closer to achieving the original funding goals of Enhanced Option B through FY 2017 by increasing bonds from \$80 million to \$100 million for FY 2014 through FY 2017

Public Safety Funding in FY 2014 Proposed Budget



- Police

- \$1.2 m - Addition of 16 police academy recruits
- \$1.1 m - New equipment
- Mayor proposes \$1.3 m of SAFE funds for helicopter expenses
- County refund of \$6.9 m is earmarked for CAD

Public Safety Funding in FY 2014 Proposed Budget



- Fire

- \$2.5 m – Increases to personnel costs (\$2.1m for increased termination pay)
- \$500,000 – Vacancy savings reduced to provide greater flexibility in personnel costs, however other adjustments have offset this
- One Fire Academy in FY 2014 budget at 30 recruits

Public Safety Funding in FY 2014 Proposed Budget



- Lifeguards
 - \$400,000 – 12 FTE hourly seasonal lifeguards
 - \$500,000 – New Cliff Rescue Vehicle

Public Safety Areas of Concern



- Is Police budget sufficient to allow for hiring of 34 recruits for all four academies and filling civilian positions given their vacancy savings?
- In some years, Police has had to reduce the number of recruits due to budget constraints as they move through the fiscal year
- If the Adopted Budget sets a policy goal of 34 recruits per academy, this should not change during the year without review by Public Safety and Neighborhood Services Committee

Public Safety Areas of Concern



- Police helicopter costs are addressed in FY 2014 through SAFE and Seized Asset Funds
 - This has been an underfunded area and will need to be addressed structurally in FY 2015
- Should County Refund of \$6.9m remain earmarked for CAD or freed up to increase funding for deferred capital Maintenance and Repair?

Public Safety Areas of Concern



- Are the adjustments to Fire personnel costs sufficient to avoid the \$2.8m over budget that occurred in FY 2013?
- Fire-Rescue is projected to exceed their fuel budget in the FY 2013 budget by \$1.0m
 - This funding need has not been addressed in the FY 2014 budget, will this be an issue in FY 2014 that should be addressed now?
- The FY 2014 budget funds one Fire Academy with 30 recruits
 - Should the FY 2014 Academy be budgeted at its capacity of 36 recruits for FY 2014 given their attrition levels?

Status of Public Liability Fund After \$27 million Withdrawal



- \$27m deposited in FY 2012 from SDGE Wildfire settlement
- Intention was to reduce General Fund annual contribution from \$6.1m to \$1.6m
- The Mayor has utilized the one-time General Fund portion of \$21.6m to balance the FY 2014 budget
- The remaining \$5.4m will be transferred to the appropriate enterprise funds in May Revise

Status of Public Liability Fund After \$27 million Withdrawal



- Since Fall of 2012, some conditions of the fund have changed
- Without \$27m in the Fund, the annual contribution has been reduced from \$6.1m to \$4.8m due to lower outstanding liabilities
- \$4.8m has been funded in FY 2014 for this purpose largely through fund balance, and annual contributions will be included in future Outlooks

Status of Public Liability Fund After \$27 million Withdrawal



- The policy target of achieving 50% of funding liabilities by FY 2019 is expected to be achieved with reduced annual contributions
- The City is still on course to achieve the City's stated policy goal by FY 2019

Public Liability Fund Reserve Targets (\$ in millions)						
Target Date	Target Contribution		Projected Reserve Balance		Balance as % of Total Outstanding	
	Reserve Policy	Updated Target	Reserve Policy	Updated Projection	Reserve Policy	Updated Projection
June 30, 2012	--*	--*	\$17.1	\$17.1	14%	17%
June 30, 2013	6.1	6.1	23.2	23.2	19%	22%
June 30, 2014	6.1	4.8	29.3	28.0	24%	27%
June 30, 2015	6.1	4.8	35.4	32.8	30%	32%
June 30, 2016	6.1	4.8	41.5	37.6	35%	36%
June 30, 2017	6.1	4.8	47.6	42.4	40%	41%
June 30, 2018	6.1	4.8	53.7	47.2	45%	46%
June 30, 2019	\$6.1	\$4.8	\$59.8	\$52.0	50%	50%

* Reserve contribution was suspended for FY 2012.

** Based on the average value of the annual actuarial liability for the three fiscal years 2010 through 2012, or \$103.6 million.

IBA Review of FY 2014 General Fund Expenditure Projections



- Mayor's Proposed Budget totals \$1.2 billion; reflects a net increase of \$36.4m from FY 2013 Adopted Budget
- Compared to the most recent Five-Year Outlook, the budget has increased by \$27.9m largely due to \$29m increase in the ARC

IBA Review of FY 2014 General Fund Expenditure Projections



- IBA analyzed all major expenditure categories:
 - Salaries and Wages
 - Fringe Benefits
 - Supplies
 - Contracts
 - Information Technology
 - Energy/Utilities
- Summaries of FY 2012 Actuals and changes between the FY 2013 Budget and FY 2014 Proposed for all categories can be found on pages 30-42 of IBA report

IBA Review of FY 2014 General Fund Revenue



- Projected growth rates for property tax, sales tax, TOT, and franchise fees are appropriate given current revenue performance and economic forecasts

Major General Fund Revenue (In Millions)					
Revenue Source	FY 2012 Actuals	Growth	FY 2013 Projected	Growth	FY 2014 Proposed
Property Tax*	\$ 385.2	0.5%	\$ 386.9	1.8%	\$ 394.3
Sales Tax	\$ 220.3	6.3%	\$ 234.1	6.0%	\$ 248.1
TOT	\$ 78.3	7.6%	\$ 84.2	6.0%	\$ 89.2
Franchise Fees	\$ 67.9	-2.2%	\$ 66.4	1.0%	\$ 67.0
SDG&E	\$ 37.2	-6.4%	\$ 34.9	2.0%	\$ 35.6
Cable	\$ 18.6	0.5%	\$ 18.7	4.0%	\$ 19.4

*Does not reflect property tax revenue received related to the dissolution of redevelopment.

IBA Review of FY 2014 General Fund Revenue



Property Tax

- The County Assessor will release the FY 2014 Assessed Valuation informing property tax growth projections by July 1st
- Preliminary growth projections of slightly over 1.0% countywide

IBA Review of FY 2014 General Fund Revenue



Property Tax (continued)

- Per the dissolution of California Redevelopment Agencies, the City can expect to receive additional property tax revenue from Redevelopment Property Tax Trust Fund (RPTTF) in the form of pass-through payments, residual distributions, and other one-time payments
 - The Outlook included \$4.8 m in ongoing revenue from RPTTF distributions to the City, and the Proposed Budget includes a further addition of \$3.1 m
 - Based on our review, we are projecting an additional \$3.1 m in ongoing RPTTF monies to the City

IBA Review of FY 2014 General Fund Revenue



Sales Tax

- With forecasts of continued growth, slowing of sales tax growth not anticipated to continue

TOT

- TOT is anticipated to continue to demonstrate strong growth

IBA Review of FY 2014 General Fund Revenue



Franchise Fees

- We reserve caution regarding the franchise fee projections in consideration of revenue performance trends
 - Growth projections for SDG&E and Cable Franchise fees are above current trends.
- Due to this, we believe that the projections may need to be slightly reduced from \$67.0 million to \$66.0 million in the final budget

General Fund FTE Overview



Summary of General Fund FTE Changes

DEPARTMENT	DESCRIPTION	FTE
City Attorney	Position Reductions	(13.00)
Debt Management	Program Coordinator	1.00
Department of Info Tech	Multimedia Coordinator	1.00
Development Services	Mayor's Civic & Urban Initiatives (6.00)/Administrative Aide 1 (1.00)	7.00
Economic Development	Development Project Manager 2 (1.00) & Administrative Aide 2 (1.00)	2.00
Environmental Services	Hazardous Substance Enforcement Team	2.25
Fire-Rescue	Hourly Seasonal Lifeguards (12.00)/Fire Dispatchers (2.00)/Info Syst Analyst 2 (1.00)	15.00
Library	New Central Library (4.50)/Library Clerk (1.00)	5.50
Office of the Mayor	Director of Open Government (1.00)/Community Affairs Representative (1.00)	2.00

General Fund FTE Overview



Summary of General Fund FTE Changes

DEPARTMENT	DESCRIPTION	FTE
Park & Recreation	Maintenance & Operations in Recreation Areas (8.01)/Balboa Park Centennial (3.00)	11.01
Personnel	Associate Personnel Analyst (1.00) & Test Monitor 2 (0.50) for Safety Examinations	1.50
Police	Partial Yr Funding for Add'l Police Recruits (8.67)/Annualize Civilian Positions (2.50)	11.17
Public Works - Contracting	Administrative Aide 2 (1.00)/Clerical Assistant 2 (1.00)	2.00
Public Works - E&CP	Engineering Positions for Storm Water Compliance on Constructions Projects	4.00
General Services	Trade Positions for Maintenance & Repair	9.00
Purchasing & Contracting	EOC Program Support	1.00
Transportation & Storm Water	TMDL/Storm Water Permit Compliance (2.00)/Bicycle Program (1.00)	3.00
Transportation & Storm Water	Street/Sidewalk Maintenance One-Half Year Managed Competition Savings	(8.17)
Other Net FTE Increases	Other	<u>3.03</u>
TOTAL		<u>60.29</u>

Overview of General Fund Reserve



GENERAL FUND RESERVE (\$ in millions)	
FY 2014 Projected General Fund Reserve	\$ 154.2
% of Total General Fund Revenue	12.9%
Amount in Excess of 8% Policy	\$ 58.5

Overview of General Fund Reserve



POTENTIAL REDEVELOPMENT IMPACT (\$ in millions)	
FY 2014 Projected General Fund Reserve	\$ 154.2
Potential State Clawback for payments denied in ROPS 3	\$ (28.0)
Revised General Fund Reserve After Clawback	\$ 126.2
% of Total General Fund Revenue	10.5%
Amount in Excess of 8% Policy	\$ 30.5

Pending Successor Agency Issues



- Administrative Budget reduced by \$1.64m for items disallowed by DOF
- Successor Agency will be considering authorizing a \$1.64m loan from General Fund reserve to pay this
- Recovery of the \$1.64m will be sought through ROPS 5, but no guarantee

Labor Negotiations



- Contracts for terms and conditions of employment with the six labor unions expire June 30, 2013; and negotiations for contracts beginning FY 2014 are ongoing
- The Mayor has expressed publicly his desire to reach five-year agreements with the unions that would include pensionable salary freezes (excluding merit increases and promotions) over the term
- City Council members have also publicly expressed their support for a five-year proposal with modest increases and conditions that protect the General Fund

Labor Negotiations



- Potential FY 2014 ARC savings from a 5-yr. deal of \$25M citywide (\$19M General Fund) are possible under the following conditions:
 - Based upon such agreements, the SDCERS actuary recommends, and the SDCERS Board approves, a revision to the June 30, 2012 actuarial valuation
 - This is solely an SDCERS Board decision in which the City has no role
- If instead, freezes to pensionable pay are achieved via five annual agreements, ARC savings would accrue on a year-by-year basis and would be anticipated to first impact the FY 2016 Budget

Labor Negotiations



- The two approaches—five-year upfront agreement versus year-by-year agreements over five years—differ in the yearly recognition of savings.
 - Nevertheless, the time value of money largely resets both approaches to have similar values in today's dollars.

Funds Included in Proposed Budget to Study Bringing Services “In-House”



- Two major service areas have been identified for study by the Mayor:
 - \$100,000 in General Funds to study bringing Taxicab Administration in-house
 - \$100,000 EMS Funds to study bringing EMS services in-house
- City Council needs to be fully apprised of these studies as they evolve and be involved in key decision points
- Potential for significant impact on City’s budget, administrative capacity and quality of service

Potential Revisions to the Mayor's Proposed Budget



- In our review we identified issues that Council may want to consider for potential revisions
- Identified both one-time and ongoing resources and potential reductions and expenditures for Council consideration
- These items are preliminary and require further vetting with Council, the Administration and City departments during budget hearings
- Final recommendations will be based on City Council input and budget memos; input from residents at hearings; additional IBA analyses; further discussions with the Administration; and review of the May Revise

One-Time Revisions



Potential One-Time Revisions to the Mayor's FY 2014 Proposed Budget (\$ in millions)

<i>Potential Additional One-Time Resources</i>		
1	Release County Refund currently earmarked in the CIP	6.9
2	SAFE Funds (Restricted)	4.1*
3	Utilize remaining EMS fund balance not expended in Proposed Budget	0.7
4	Utilize remaining FY 2013 budget surplus	0.2
5	Utilize Risk Management Administration fund balance	0.7
6	Reduce funding for computer acquisition and replacement	0.5
<i>Total</i>		\$ 13.1
<i>Potential One-Time Expenditures</i>		
7	Increase FY 2014 M&R deferred capital funding to catch up to FY 2013 funding level	(5.1)
8	Provide one-time funding for condition assessments: a. facilities (\$1.0m); b. sidewalks (\$1.0m); and c. park assets (\$.3m)	(2.3)
<i>Total</i>		\$ (7.4)

*The Mayor has proposed several uses in Police, Fire and Transportation Engineering which we are currently evaluating; SAFE funds have tight restrictions

Ongoing Revisions – Resources



Potential Ongoing Revisions to the Mayor's FY 2014 Proposed Budget		
(\$ in millions)		
<i>Potential Ongoing Resources</i>		
1	Utilize Street Damage Fund to fund trenching portion of streets deferred capital, consistent with the Fund's criteria	1.1
2	Increase RPTTF revenue for FY 2014 in Proposed Budget from \$3.1 million to \$5.2 million	2.1
<i>Total</i>		\$ 3.2
<i>Potential Reduction/Elimination of New Ongoing Expenditures in Proposed Budget</i>		
3	Supplemental COLA	1.4
4	Civic and Urban Initiative	1.0
5	Penny for the Arts Blueprint	1.6
<i>Total</i>		\$ 4.0

Ongoing Revisions - Expenditures



Potential Ongoing Revisions to the Mayor's FY 2014 Proposed Budget (\$ in millions)

<i>Potential Ongoing Expenditures</i>		
6	"Catch-up" Program for Enhanced Option B - Deferred Capital Funding Plan to achieve funding goals through FY 2018, impacts in FY 2015 - 2017 for small increases to debt service	-
7	Increase funding for Fire-Rescue diesel fuel costs	(1.0)
8	Increase Fire-Rescue personnel budget to further align with operational needs	TBD
9	Increase Fire Academy budgeted for FY 2014 from 30 to 36 recruits	TBD
10	Restore 4 branch library and 3 Central Library hours	(3.0)
11	Begin phasing in restoration of recreation center hours	TBD
12	Extend operations of Homeless Veterans Emergency Shelter in FY 2014:	
	a. Existing 4 months to 7 months OR b. Existing 4 months to 12 months	(0.3) - (0.6)
13	Provide funding for efficiency consultant for department efficiency studies to identify savings and mitigate deficits in future years	TBD
<i>Total</i>		\$4.3 - \$4.6



Key Budget Dates

- *Monday, May 6 – Friday, May 10*
 - Budget Review Committee hearings with departments
- *Tuesday, May 21*
 - Mayor issues *May Revise* and *FY 2013 Year-End Report*
- *Wednesday, May 22*
 - City Council reviews *May Revise* and *Year-End Report*
- *Friday, May 31*
 - City Council budget memos due to IBA
- *Wednesday, June 5*
 - IBA's final report issued on recommendations to the Mayor's budget
- *Monday, June 10*
 - City Council decisions on *Final Budget Modifications*

Conclusion



- We appreciate the assistance that has been provided by Financial Management and all of the City departments
- We look forward to working with the Council, Mayor, and the Community on developing the final budget proposal for FY 2014
- Our goal is to develop a final budget that addresses priority areas of the Council, the Mayor, and the Community while being mindful of our fiscal constraints and adhering to our budget policies